AGRICULTURE AND AGRI-FOOD

MOVING *forward*

Securing a Strong Financial Foundation for the Sector

The Government of Canada's Achievements in Agriculture

Canada

A New Approach to Safety Nets

In December of 1994, after a year of consultation with farm groups, the Minister of Agriculture and Agri-Food achieved a national consensus for a new Canadian farm safety net system. The new generation of safety net programs – designed to fulfil international trade obligations and provide adequate levels of domestic income support – is now being implemented.

The new approach is based on "whole-farm" support which replaces the old patchwork of "commodity-by-commodity", price-based support. Producers will be guided by market signals in managing their farms to maximize both profit and the efficient use of their resources.

The new approach emphasizes growth through innovation, investment and trade that producers can sustain over the long term. In an area where the risks are high in the best of times, the new approach to safety net programs is helping farmers to better manage business risks and to meet global competition.

The new safety nets are made up of:

- the Net Income Stabilization Account (NISA), which is national and "whole-farm" in scope;
- crop insurance programs which are administered by the provinces;
- provincial-based companion programs;
- federal cash advance and loan guarantee programs.

Overall, the government of Canada is investing $600 million yearly in safety nets for Canadian farmers while the provinces are spending an additional $400 million.

To ease the transition toward the new Canadian farm safety net system, the federal government, in cooperation with the provinces and Canadian farmers, has developed a broad safety net policy framework. This will ensure a level playing field among provinces, and above all, trade neutrality.

As we move forward with implementation, the farm sector will be involved through monitoring and evaluation mechanisms in ensuring that safety net activities remain responsive to their changing needs For example, there is a new Safety Net Advisory Committee composed of representatives of national farm organizations and members of the national NISA committee.

Net Income Stabilization Account (NISA)

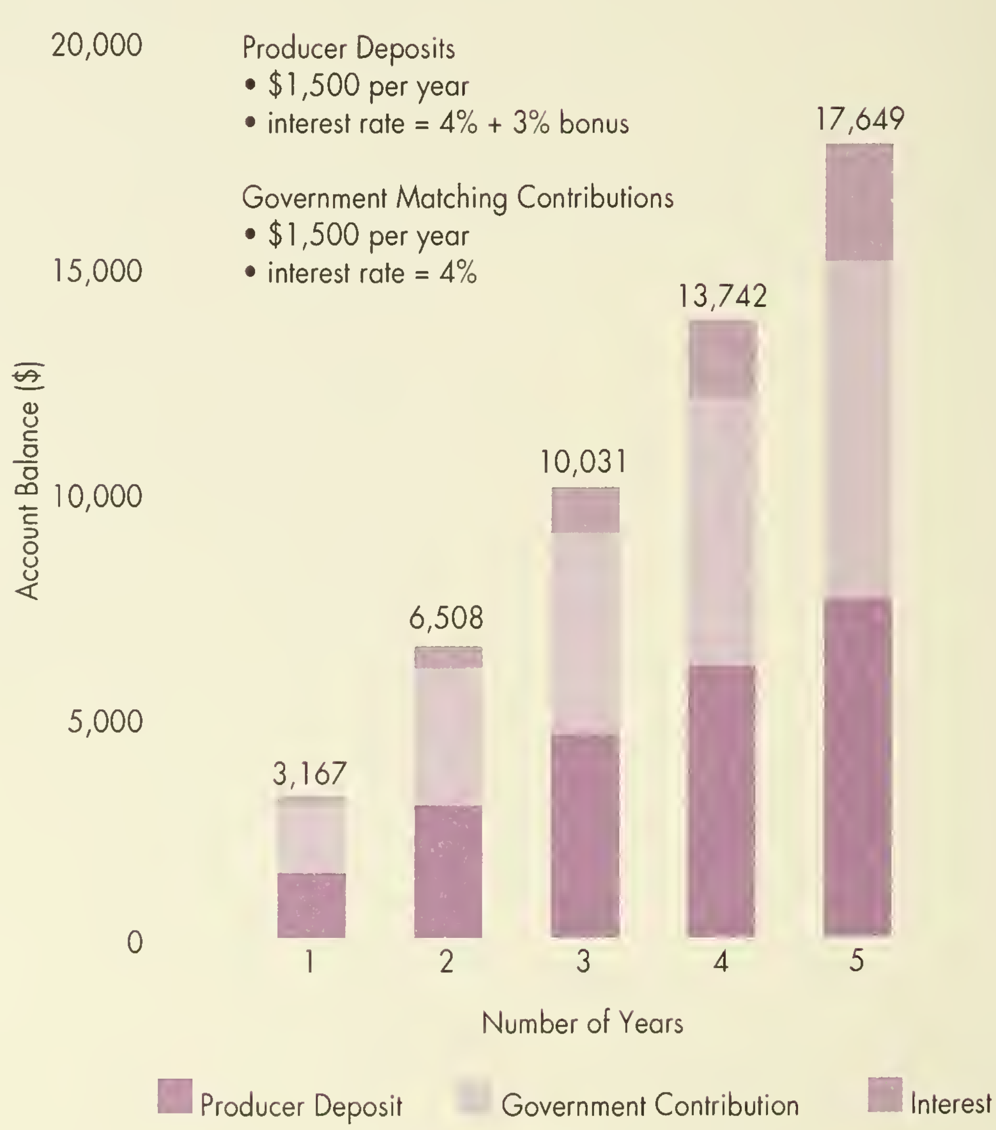
In January 1991, the federal government announced the NISA program under the authority of the Farm Income Protection Act (FIPA). It was designed from the ground up by farmers, provinces and the federal government.

NISA is a voluntary program designed to help producers stabilize their farming income. For the 1996 stabilization year, the program will allow producers to deposit up to 3% of their eligible net sales into their own NISA account and receive a full government matching contribution.

The matching government contribution in every province except Alberta is 2% federal, 1% provincial. In Alberta, the federal government contributes the full 3%. The federal government and several provinces also offer enhanced matching contributions over and above the base 3% in certain cases

In years of declining income, producers can draw down their NISA acocunts. Eligible commodities in most provinces include most primary agricultural commodities except those covered by supply management.

How Your Money Grows in NISA



The costs of administering NISA have been reduced by 61% since 1993. Budget cuts were achieved without impacting the level of service nor the quality of program delivery.

Over 130,000 producers participate in the NISA program. the total amount held in NISA accounts (Funds 1 and 2) is about $1.6 billion. The average account balance is about $12,500.

Fund 1 holds participants' deposits in the financial institutions of their choice. A competitive interest rate can be negotiated with the institution holding the account and the government pays a 3% bonus interest on matchable deposits.

Fund 2 holds the governments' matching contributions and all interest earned from both Funds 1 and 2. These funds are income tax sheltered and become taxable upon withdrawal. Withdrawals are first made from Fund 2 until that account is depleted.

FIMCLA Loans

uring the 1995-96 fiscal year, more than 14,000 loans, valued at $372 million, were registered by FIMCLA.

- Almost half the loans were used for the purchase of farm implements.
- About 20% of loans were for the purchase of additional land.
- Around 11% were used to buy livestock.
- 7% were used for construction or repairs to farm buildings.

Saskatchewan farmers are the biggest users of FIMCLA, with almost half of all loan registrations. Alberta farmers account for 21%, Ontario for 11% and Québec for 8%.

Farm Improvement and Marketing Cooperatives Loans Act – Supporting Diversification and Adaptation

Concrete evidence of the federal government's support of agricultural diversification and adaptation has come with enlargement of Canada's oldest and perhaps most successful guaranteed loan program – the Farm Improvement and Marketing Cooperatives Loans Act.

It's been known mostly as FIMCLA since it was passed in 1943, and the recent amendment to the Act involved only one line. However, that change doubles the total dollar amount of loans which can be guaranteed by the Government of Canada over a 5-year period, to $3 billion.

Under FIMCLA, farmers can borrow up to $250,000 for a wide range of farm improvement projects such as acquiring additional breeding stock or more land, updating barns, fencing or irrigation, or finding better methods of waste disposal. Loans under FIMCLA can also be used for alternative farming operations such as organic farming.

The program also makes credit available to farmer-owned marketing cooperatives for activities that add value to agricultural products. For example, a co-op could borrow up to $3 million under FIMCLA to build an apple juice plant, or to clean and bag vegetables.

Because the Government of Canada guarantees repayment of 95% of the amount borrowed, commercial lenders provide program participants with rate reductions of about one-half to one per cent, and lower equity requirements to 20 per cent.

Companion Programs and Crop Insurance

- AAFC's farm income strategy includes province-specific companion programs intended to facilitate increased sectoral self-reliance. The programs include enhancements to existing crop insurance and NISA, whole-farm disaster assistance, development and adaptation initiatives, and revenue insurance.
- Crop insurance remains an important part of the new safety net structure. In 1996, the federal government contributed some $180 million toward provincial crop insurance programs. Also, the recent review of crop insurance by the federal government, the provinces and industry produced improvements that should broaden the appeal of the program, thereby raising participation rates.

Cash Advances and Cooperative Marketing Through AMPA

Over the past decades, Canadian farmers have entered into one new international market after another. New trade deals – like the GATT/WTO agreement – have helped bring Canadian agri-food products to the world.

Increasingly, Canadian farmers are becoming more competitive by becoming better business managers. They are controlling their expenses and maximizing their incomes in order to get the best return on their investment.

But producers do not always have the luxury of choosing when they invest or sell their crops. To help farmers deal with these challenges, the government introduced legislation – the Agricultural Marketing Programs Acts (AMPA) – which merges four long-standing marketing Acts into one and secures interest-free cash advances in the legislation.

To start the process, Agriculture and Agri-Food Canada consulted with 84 different producer groups to get their input on the Department's financial marketing programs so that the new Acts would fit the needs of Canadian farmers.

If passed by Parliament, the AMPA is scheduled to be in place by the 1997 crop year. In the meantime, the Cash Flow Enhancement Program has been extended to ensure interest-free cash advances continue for farmers participating in the existing cash advance programs. The price pooling or cooperative marketing program continues under the current Act.

How AMPA Works

Advance Payments

Cash advances of up to $250,000 will be available at preferential interest rates. AMPA will pay for the interest charges on the first $50,000 of a cash advance to qualified producers.

Price Pooling

This program assists in the marketing of agricultural products. It provides price guarantees for product marketed under a cooperative plan where all producers receive the same price for product of the same quality. The program also facilitates value-added processing to further maximize producer returns.

If passed by Parliament, the new AMPA would treat all commodity groups and all regions of the country alike, while remaining flexible enough to meet the needs of producers who operate under a wide range of marketing systems throughout Canada.

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